December 21, 2001

Honorable Robert B. Zoellick
United States Trade Representative
The Winder Building
600 17th Street, N.W.
Washington, D.C. 20506

**<u>Re: Steel: Section 201 Safeguard Investigation; Comments on Remedy</u>**

Dear Ambassador Zoellick:

I am writing to you on behalf of USS-POSCO Industries ("UPI") and its employees, and in response to your notice published October 26, 2001 (66 Fed. Reg. 54,321-24). I would like to provide comments regarding what action, if any, the President should take under section 203(1) of the Trade Act in response to the remedy recommendation of the U.S. International Trade Commission ("ITC" or "Commission") stemming from its 201 safeguard investigation concerning Steel, Inv. No. TA-201-73. I am particularly concerned that the majority of the Commission recommended disparate remedies for hot-rolled steel, which UPI purchases exclusively for further conversion, and steel slabs, also purchased exclusively for further conversion in the United States. The ITC's recommended remedy, if adopted by the President, will put UPI at a severe disadvantage relative to its closest U.S. competitor in the western United States.

UPI is a 50/50 partnership formed in 1986 between subsidiaries of USX Corporation (now United States Steel LLC or "U.S. Steel") and Pohang Iron & Steel Co., Ltd. ("POSCO") of South Korea. UPI produces cold-rolled sheet, galvanized sheet, and tin mill products from hot rolled steel ("hot band") captively supplied by its two parent companies. UPI is a converter of hot bands just as, for example, California Steel Industries ("CSI"), our major competitor, is a converter of slabs. We do not re-sell any of our raw material feedstock. However, UPI relies on a dedicated, captive source for its hot bands in order to have a commercially secure supply.

UPI has successfully used its strategy of relying on a captive supply of the highest quality hot bands to create a production enterprise second to none in its reputation for quality products. UPI took control of a mill on the verge of extinction, and spent almost $500 million modernizing its cold rolling and downstream finishing operations bringing them up to world class quality and efficiency standards. Over the past several years, UPI and its 900 employees have achieved a number 1 or 2 ranking in total customer satisfaction versus all other major U.S. producers according to a top ratings company (The Jacobsen Survey).

Since UPI's inception in 1986, its imports of feedstock have been stable from year to year and fairly traded. They could not have been part of any surge that may have formed the basis for the ITC's recommendation to the President. Additionally, UPI believes that much of the problem with imports of hot-rolled steel has been remedied by the Title VII relief that has been recently imposed on that product. If the President nonetheless finds additional relief with respect to hot-rolled steel to be warranted, any further remedy should be focused only on preventing a new surge in imports while adjustment plans of the U.S. producers are being implemented. It should also ensure fairness among U.S. producers.

Three of the six members of the Commission recommended that the President impose a 20 percent tariff on imports of carbon and alloy steel flat products other than slab. If adopted by the President, this tariff would apply to UPI's captively supplied imports of hot-rolled steel from POSCO. The same Commissioners recommended a tariff rate quota for slabs that would allow imports to continue at recent levels without additional duties. In the West, this means that a company like CSI, which is by far UPI's primary competitor, would continue to have unimpeded access to low-cost imported slabs for further conversion from any foreign mill at no penalty. In contrast, UPI, which purchases hot-rolled steel for further conversion from its owners would be subject to duties of 20 percent on every ton purchased from its foreign owner. This disparity certainly does not pass any reasonable fairness test. The remedy would force UPI to buy its feedstock at higher prices – either domestically, at higher prices due to transportation costs and at the expense of our strategy of having a secure, first quality supply, or from our traditional South Korean source at tariff-burdened prices. Either way, UPI would be at a severe competitive and financial disadvantage to its competitors who would be able to import slabs as feedstock without tariffs. This would jeopardize our future as a premiere American steel company.

UPI strongly urges the President to adopt a remedy that does not make a distinction between a company like UPI, that converts its raw material hot bands into finished product, versus a company that converts its raw material slabs into many of the same finished products. UPI can confidently predict that disparate relief recommended by the ITC would raise UPI's costs substantially and force UPI to cede market share to CSI. The effect on UPI's bottom line would be devastating and could imperil the survival of the venture. Disparate import restrictions favoring imports of slabs while penalizing a company like UPI is equivalent to a government dictate selecting slab importers as the winners among U.S. steel companies. UPI wholeheartedly supports the consensus that it is for the market, and not the government, to determine which producers will survive.

At the remedy stage of the ITC's Section 201 investigation, UPI did not seek to have hot-rolled steel given special leniency, though we considered doing so. Our position, however, did not anticipate the quirk in the ITC commissioner's recommendations that, by treating slabs differently than other flat-rolled products, an unfair advantage would be handed to our competitors who produce their products from slabs. Since this is now the case, UPI requests that, if the President decides that some import restrictions are necessary with regard to hot-rolled steel he adopt a remedy with regard to UPI's captively supplied imports of hot band that is equivalent to the remedy recommended by the ITC with regard to imports of slab. This remedy should recognize that, like slabs for further conversion, imports of hot band are also a raw material and should be afforded the same consideration. Specifically, UPI would suggest that the President adopt a 20 percent tariff on imports in excess of the historic level of imports, i.e., 6.0 million tons per year. UPI would suggest that this amount be increased annually by 6 percent, just as the ITC recommended that the tariff rate quota amount for slabs be increased by 6 percent annually over the four-year relief period. Such a remedy would be effective in preventing any surges in imports and allow U.S. hot-rolled steel producers to make needed investments to adjust to import competition. In fact, Vice Chairman Okun of the ITC recommended that the President adopt a similar quota at the historic level of imports for hot-rolled steel.

UPI is well positioned with the world's most efficient work force, and the latest in technology, machinery, and equipment to survive, and indeed thrive, in a fiercely competitive steel market. UPI is unsurpassed in meeting its customers' needs for cold-rolled sheet, galvanized sheet, and tin mill products produced to exacting specifications. Large companies like Silgan Containers and Crown Cork & Seal rely on us for virtually 100% of their western requirements. UPI cannot survive and serve its customers if the U.S. Government imposes disparate remedies on companies that are essentially in the same business. I have great confidence that close examination of the facts by the President and yourself will lead you to the same conclusion.

Thank you for your consideration and please call me if you have any questions concerning this correspondence.

Sincerely yours,

Robert R. Smith

cc: Carmen Suro-Bredie
Chair, Trade Policy Staff Committee
Office of the U.S. Trade Representative

Andrew Stephens
Director, Steel Trade Policy
Office of the U.S. Trade Representative